

Advance Ruling Summary No. 02/2022
Published on 16 DEC 2022

1. Subject:

Whether the interest income earned by Singapore resident individuals or by beneficiaries of a Singapore trust from investing in interest-bearing Notes offered by a section 13O Fund is exempt from income tax under section 13(1)(ze)(i), read together with section 43(2) and applying section 13Q of Income Tax Act.

2. Relevant background and facts:

- a. The Company is a Singapore private company limited by shares and is in receipt of tax exemption status from the Monetary Authority of Singapore under section 13O of the Income Tax Act.
- b. The Company wholly owns and is managed by an exempt fund manager under the Securities and Futures Act (Cap. 289) of Singapore ("SFA"). All the ordinary shares of the Company are owned by a Singapore tax resident individual ("Owner") at the time of the ruling application. There may be plans for additional members of the Owner's family to become ordinary shareholders of the Company in the future.
- c. The Company intends to issue a number of unsecured interest-bearing notes ("Notes") on a private placement basis under section 272B of the SFA. These Notes will initially be issued to either: (a) up to five members of the Owner's family, all of whom are Singapore tax residents; or (b) to a Singapore trust ("Trust") that will have a Singapore trust company as its trustee and members of the Owner's family, all of whom are Singapore tax residents, as its beneficiaries. In the case of the Trust, all the interest income received by the Trust from the Notes will be distributed to the beneficiaries within the same year that such interest income is derived.
- d. It is intended that the Notes will be transferrable by their holder(s) to other investors (including those who are not members of the Owner's family) prior to their maturity.

3. Relevant legislative provisions:

Income Tax Act 1947 ("ITA") - Section 13(1)(ze)(i), Section 43(2) and Section 13Q

4. The ruling:

- a. The interest income received by Singapore resident individuals from investing in the Notes will be exempt from tax under section 13(1)(ze)(i) of the ITA.

- b. The interest income in respect of the Notes paid to and distributed by a Singapore trust to its Singapore resident individual beneficiaries within the same year will be exempt from tax under section 13(1)(ze)(i) of the ITA read together with section 43(2) and applying section 13Q of the ITA.
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5. Reasons for the decision:

- a. The term “debt securities” is defined under section 13(16) of ITA as having the same meaning as in section 43H of ITA. Section 43H(4) defines “debt securities” to mean “bonds, notes, commercial papers, treasury bills, certificates of deposits and ATI instruments within the meaning of section 10I(2).”
- b. The Notes issued by the Company fall within the definition of “debt securities” under section 43H(4) of the ITA as they exhibit the typical characteristics of debt securities of being tradable or transferable.
- c. In the case of the Singapore Trust set up to hold the Notes and its individual beneficiaries are entitled to the trust income, the Notes still fall within the definition of “debt securities” as there is no change to the characteristics of the Notes issued.
- d. Section 43(2) accords the tax transparency treatment where no tax will be imposed at the trustee level and the beneficiaries are subject to tax on their entitlement to the share of trust income. The Singapore resident individual beneficiaries are in turn accorded the tax exemptions as if they had received the trust income directly under section 13Q. On the basis that the Notes qualify for exemption under section 13(1)(ze)(i) of the ITA, section 13Q will apply if the Singapore trustee distributes the income to the Singapore resident individual beneficiaries, and the income will accordingly be exempted.
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